

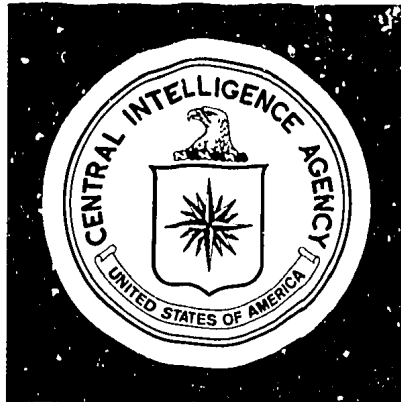
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# Weekly Review

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27 December 1974 25X1

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**CONTENTS** (December 27, 1974)

The WEEKLY REVIEW, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

**EAST ASIA  
PACIFIC**

- 1 South Vietnam: Attacks Slacken
- 2 Japan: Miki's Economic Policies

**EUROPE**

- 4 US Gold Auction: Foreign Reaction
- 4 Cyprus: Better Chance for Talks
- 5 UK: Political Life Goes On
- 5 France to Build Nuclear Carrier
- 6 Portugal: Goncalves Under Fire
- 7 EC: The Dublin Presidency 25X1
- 8 Security Conference Adjourns
- 8 European Communists: Another Meeting

**WESTERN  
HEMISPHERE**

- 10 Mexico: Presidential Succession
- 11 Peru: Strains in US Relations
- 12 Guyana: Toward a One-Party State

**MIDDLE EAST  
AFRICA**

- 13 India: Democracy Under Pressure
- 15 Ethiopia: Socialism Adopted
- 16 Iranian Sams Down Iraqi Aircraft

25X1

25X1

## SOUTH VIETNAM: ATTACKS SLACKEN

The Communists' three-week-old winter-spring campaign is less intense than earlier, but the decline in attacks is probably only temporary. The Communists almost certainly will intensify the fighting as soon as they have consolidated their position and regrouped.

On December 26, North Vietnamese troops reportedly took the district town of Don Luan in Phuoc Long Province—the third district capital in that province to fall since the campaign began early in the month. Communist troops also are on the attack in Binh Tuy Province; they captured the district capital of Tanh Linh on Christmas day.

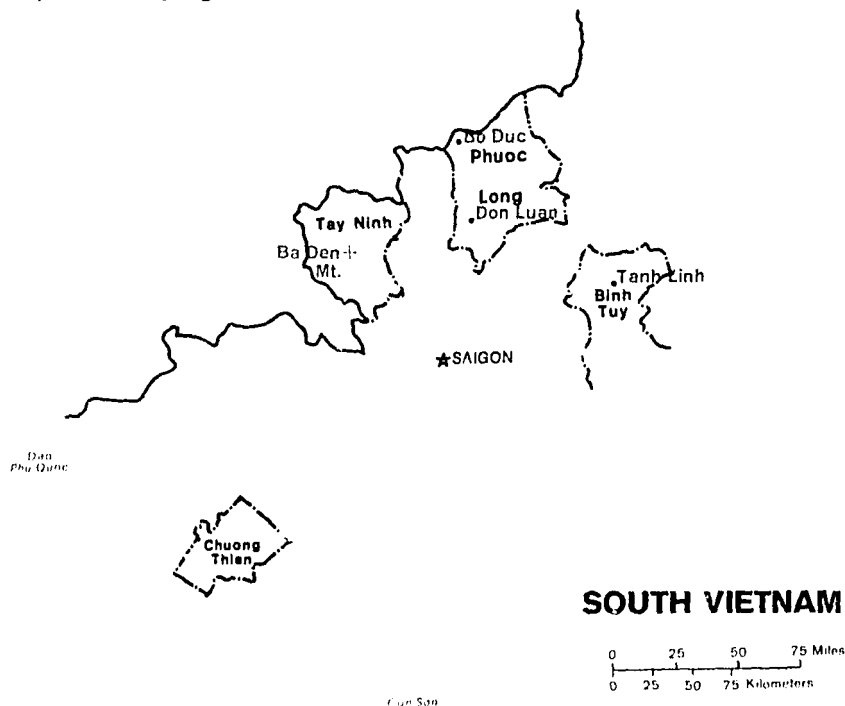
Elsewhere in Military Region 3, Communist military activity was limited mostly to shellings and small-scale ground probes. In Tay Ninh Province, Saigon's troops are trying to clear the

Communists from several villages northeast of the provincial capital. The South Vietnamese have not been able to relieve the beleaguered garrison on Ba Den Mountain, and they fear this outpost will soon fall to the Communists.

In the delta, Communist forces are attempting to keep the South Vietnamese off balance by harassing government positions. Here, too, the Communists appear to be refitting. They are holding on to recent gains in Chuong Thien Province, but no new attacks have been reported.

There have been a few fairly intense battles in the northern part of South Vietnam, but these resulted largely from government initiatives and do not mark the start of a new campaign. Heavy seasonal rains and accompanying floods are hampering operations by both sides.

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## JAPAN: MIKI'S ECONOMIC POLICIES

Prime Minister Takeo Miki, with little economic experience himself, has assembled a strong but potentially fractious team to manage Japan's economic difficulties. Members of the new team have already differed publicly over how to deal with the simultaneous problems of inflation and recession. The minister of international trade and industry, Toshio Komoto, sees recession as the more serious problem and has called for a shift to expansionary policies. Deputy Prime Minister Fukuda, more concerned with continuing the fight against inflation, is calling for selective price freezing—a move opposed by the Cabinet's other strong man, Finance Minister Ohira.

Ohira's opposition will probably limit any Fukuda-sponsored move toward extremes in the anti-inflation campaign. At the same time, it is clear that agreement between these two would effectively set policy on any given issue. Politically dominant in the Miki cabinet, they hold the power of decision. And despite their long rivalry and tactical differences, they apparently agree that inflation must be held below 10 percent next year and that only a low rate of real economic growth—perhaps 1 to 3 percent—will therefore be possible.

### Domestic Economic Policy

Given the Japanese emphasis on fighting inflation, tight demand-management policies will probably remain in effect through next spring. Tokyo thereby hopes to slow inflation from the current 25 percent annual rate to 15 percent before wage negotiations start next April. Japanese labor, however, is pressing for a 30 percent wage hike on the grounds that price increases have already eroded the 32 percent hourly pay raise gained last year. Because of the government's determination to break the wage-price spiral, a serious confrontation with labor may be in the offing.

For the moment, only moderate adjustments in policy are planned. A slight credit easing,

primarily aimed at avoiding a further rash of bankruptcies, is scheduled for the first quarter of 1975. The new government will probably accelerate plans to subsidize unemployment compensation, particularly for hard-hit industries such as textiles. Such moves would cushion the impact of the recession in selected areas, but would not provide significant stimulus to sagging domestic demand.

Continuing current anti-inflation policies runs the risk of compounding the downturn. The

### Tokyo's New Economic Team

—Deputy Prime Minister Takeo Fukuda, concurrently director of the Economic Planning Agency and chairman of the cabinet's new Economic Coordinating Committee, will exert the broadest influence over economic policy. He is the architect of Japan's current tough anti-inflation program and a strong fiscal conservative.

—Masayoshi Ohira remains as finance minister, the most important cabinet post. He is Fukuda's chief rival for power within the ruling Liberal Democratic Party, but does not differ fundamentally in economic philosophy.

—Foreign Minister Kiichi Miyazawa, like Fukuda and Ohira a former career bureaucrat in the Finance Ministry, will give the Foreign Ministry a stronger role in international economic negotiations. He is a member of Ohira's faction within the party.

—Toshio Komoto, minister of international trade and industry, appears the weakest of the lot. He has yet to demonstrate leadership in a cabinet position, but is a member of Prime Minister Miki's faction and apparently was appointed as a reward for loyal service.

huge inventory buildup over the past year already promises to force further production cutbacks in the months ahead and to boost the 1.7 percent unemployment rate. Because major industries are working well below capacity, moreover, economic recovery will tend to be slow even after restraints on demand are eased.

### The Impact Abroad

The economic slump and Tokyo's preoccupation with fighting inflation will affect Japan's economic role abroad. Japan will find it easier, for example, to accept proposals that the major industrial nations significantly reduce their oil consumption. Trade Minister Komoto has announced plans to cut oil consumption in 1975 by 3 percent over 1974, or about 150,000 barrels per day. Japan's consumption in 1974 has declined an estimated 7 percent from last year because of the economic downturn.

Japanese demand for non-oil imports will probably decline, compounding the economic problems already facing major exporters of raw materials, such as Australia, and of light manufactured goods, such as South Korea. At the same time, stagnant demand in Japan will induce Japanese firms to try to increase exports rapidly. Even with a very slow export growth, however, Tokyo's trade surplus in 1975 will probably reach \$5-8 billion, compared with about \$1 billion this year, and the Miki government will face serious complaints and possibly further trade restrictions from countries with severe bilateral trade deficits.

Tokyo's commitment to reduce import barriers in multilateral trade negotiations might also weaken. Japanese industries hit hard by the slump might join domestic agricultural interests in opposing reductions in tariffs and import quotas. Tokyo, however, will be reluctant to reject tariff cuts that are acceptable to the US and EC countries.

Despite the advent of a new administration and the domestic economic difficulties it faces, many of Tokyo's international economic policies will remain almost unchanged. Even with reduced

non-oil import requirements, the Miki government will continue to court resource-rich countries. Although it will be careful to avoid actions that might be viewed as antagonistic by OPEC nations, Tokyo will cooperate with the US on broad international economic issues.

Tokyo will probably go along with US proposals for recycling petrodollars, for example, providing that major Western European countries also agree. Japan, however, will try to minimize its own financial contribution as well as the risks involved in guaranteeing credits for financially shaky countries. Tokyo's own payments position, as noted earlier, is strong and improving. On food issues, the new government will agree on the need for increased international stockpiles, but will be reluctant to make any financial commitment to the project.

### Later Next Year

Japan's economic position and policies in mid-1975 are more difficult to forecast. They will be affected by several political and economic variables, including the results of local elections this spring. A great deal will depend on the outcome of the wage negotiations in April. If these are satisfactory from the government's point of view, official restraint policies would be relaxed and, in turn, could help stimulate economic recovery. If the wage negotiations turn out badly, however, the high rate of inflation will persist and relaxation of restraints would come more slowly.

Either way, political considerations could further complicate the situation. Deputy Prime Minister Fukuda and Finance Minister Ohira, for example, might well disagree over how to adjust policy in the aftermath of the wage negotiations. In that event, Prime Minister Miki might be unable to make a command decision, given his lack of economic expertise and his comparatively weak political position. Indeed, the continued existence of the Miki government will probably be under intensive party review over the next several months, and its economic performance will be a critical element in any decision to shift to a stronger leader.

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## US GOLD AUCTION: FOREIGN REACTION

The major gold producers have exhibited slight reactions to the announcement of a US gold auction on January 6, while the principal holders in Europe have been mildly critical.

South Africa has announced that it plans no special action as a result of Washington's decision. Pretoria probably will continue to sell enough gold to cover foreign exchange needs, but it has left open its option to reduce sales should the price fall appreciably. South African sales so far this year have totaled about 720 tons (23 million ounces), compared with 822 tons in 1973.

The Soviet Union has not indicated how it will react to the US auction. Moscow traditionally has sold gold only to cover foreign exchange requirements. In 1974, however, the Soviets sold about 91 tons in spite of their foreign exchange surplus. Moscow now apparently enters the market when prices are up and withdraws when they are down. The USSR could afford to withhold gold from the market next year, and it is likely to do so if prices weaken substantially. Both South Africa and the USSR could restrain supply sufficiently to offset the impact of US sales.

European reaction to the US decision has been mildly critical. Some governments were probably disturbed by the lack of consultation, and many are concerned that the January sale may drive the gold price down and keep it depressed. This would reduce the value of their gold, which is used to finance payments deficits.

The US auction will cushion the impact of the previously announced removal of US restrictions on private ownership of gold. The longer term effect of the January sale, and of possible further US sales, depends on such factors as the actual level of US demand for gold for speculation and hoarding, the extent to which the present price already reflects the new US demand, and the market strategies of the major gold producers—South Africa and the USSR.

Gold was fixed at \$192.25 per troy ounce in London on December 24, up \$6.50 from December 2, the day before Treasury Secretary Simon announced the US auction. The gold market has

rebounded from earlier losses largely because of the US-French agreement at Martinique to allow official central bank gold holdings to be calculated in the future at current market prices. The French subsequently announced their intention to do so.

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## CYPRUS: BETTER CHANCE FOR TALKS

Prospects for opening political negotiations between representatives of the Greek and Turkish Cypriot communities early next year have improved despite a last minute snag. The progress appears to be the result of consultations involving the Greek and Turkish foreign ministers at the NATO meetings in Brussels earlier this month in which the US secretary of state participated.

On December 19, President Makarios gave former acting president Clerides written instructions to begin negotiations with Vice President Denktash on the political aspects of the Cyprus question. The instructions were "in accordance" with the common political line adopted in Athens earlier this month by Greek and Greek Cypriot leaders. Clerides and Denktash met on December 19 and 20 to determine the basis for future political negotiations and reached agreement on all but one point. The two negotiators refuse to identify the unresolved issue, but Denktash noted that the Turkish side was satisfied with the authority and mandate that Makarios had given Clerides. While Denktash did not elaborate, Turkish foreign ministry officials noted their "strong impression" that the Greek side was now prepared to negotiate on the basis of a federal system for the island.

The two leaders continued their contacts on the unresolved point—said to be a procedural matter—last weekend. An unconfirmed Athens radio broadcast claimed on December 22, that the resumption of regular meetings between Clerides and Denktash was now considered "definite," with only the precise date of the first official meeting remaining to be fixed. Diplomatic contacts and consultations are expected to diminish for the holidays, but will begin in earnest early next month. A period of long, hard bargaining is likely to ensue.

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**UK: POLITICAL LIFE GOES ON**

Factionalism in the ruling Labor Party has given Prime Minister Wilson new headaches in recent weeks. Most embarrassing was the resignation in mid-December of parliamentary whip Mellish following Wilson's refusal to discipline 54 dissident Labor MPs. Mellish quickly agreed to stay on, however, once Wilson promised to meet with all Labor MPs after the holidays to try to revive discipline and restore the whip's credibility.

The meeting will be little more than a holding action, however, given the increasing restlessness within the party's left wing. In part, the left is frustrated by its inability to influence government policy, most recently in parliamentary debate on the EC and the defense review. The left also faces an erosion of strength in its traditional strongholds. Earlier this month, for example, all five left-wing candidates for posts on the party trade union committee were beaten by moderates. Two weeks ago, militants in the miners' union suffered defeat at the hands of moderates. The scuttling of the militants' demands for a 66-percent wage hike is good news for the Trades Union Congress and the government, and reduces the likelihood of a repetition of the coal strike last winter.

Emboldened by the left-wing setbacks, Labor moderates announced formation of the "Manifesto Group" on December 18. The new faction, containing about 80 MPs, hopes to combat the established left-wing Tribune Group. The Manifesto Group excludes cabinet members to avoid the impression of being a government mouthpiece. Although it will back Wilson on many issues, Manifesto may serve to harden the factional split in the party in the long run and make Wilson's balancing act even more difficult.

The opposition Tories, meanwhile, moved one step closer to resolving their leadership question. Losing two elections this year, Heath was forced to appoint a committee last month to draft new leadership selection procedures. The proposals, announced last week, retain the existing ballot system, but call for several innovations, including a role for the rank-and-file. The draft

does not alter the balance of power within the party, however, and Heath should be able to hang on if the proposals are not amended. Nevertheless, many Tories remain disenchanted with him and do not like the new procedures. For the time being, though, Heath has only one declared challenger, the Tories' leading female politician, Margaret Thatcher.

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**FRANCE TO BUILD NUCLEAR CARRIER**

The French have announced that they will begin building their first nuclear-powered helicopter carrier next April. The keel will be laid down in the naval dockyard at Brest, and the ship reportedly will cost an estimated \$184 million. The new ship, with a crew of 840 and up to 25 Lynx or 10 Super Frelon helicopters, will be assigned to escort and anti-submarine missions. It can also provide fleet air cover when carrying vertical or short take-off and landing (V/STOL) aircraft.

The carrier is scheduled to replace the conventionally powered helicopter carrier *Arromanches*, which was decommissioned last January. The new ship, expected to become operational in 1980, will be the first nuclear-powered surface warship in a West European navy.

Navy officers have told the assistant US naval attache in Paris that the French navy is seriously considering obtaining V/STOL-type aircraft, such as the Anglo-US Super Harrier, for the new carrier. These sources believe the trend in the world's navies will be toward smaller carriers equipped with V/STOL fighter aircraft. The new carrier will displace 15,000-18,000 tons—about half the size of present French aircraft carriers. Such smaller ships, or similar follow-on carriers, would replace France's present two aircraft carriers, the *Clemenceau* and the *Foch*, when they go out of service some time in the late 1980s.

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**PORTUGAL: GONCALVES UNDER FIRE**

The flare-up of differences last week between Prime Minister Goncalves and his cabinet appears to have subsided as a result of the conciliatory role played by President Costa Gomes.

The controversy over the long-overdue economic program, expected to be released this week after a delay of a month, is the most serious issue between Goncalves and the cabinet. The draft has been weakened by many compromises and is likely to complicate rather than solve the country's critical economic problems. Goncalves, who favors stronger governmental control over private business, opposed the plan on the grounds that it is too conservative. Melo Antunes, the leftist minister without portfolio who was put in charge of drafting the economic program, has approved the moderate plan. Apparently Antunes concluded that a more radical program based on socialist principles might discourage badly needed private investment and foreign capital.

Goncalves further antagonized his cabinet when he ordered the arrest of 12 businessmen on charges of "economic sabotage" without consulting his closest advisers, ministers without portfolio Antunes and Vitor Alves. The businessmen were all associated with enterprises that had been taken over by the government under new laws authorizing state intervention in troubled companies.

Although the businessmen are probably guilty of breaking the law, the business community generally believes that they were engaging in what was considered "normal practice" under the previous regime. In view of these circumstances, Alves and Antunes reportedly insisted that the men be tried before civilian judges and not under the more stringent military laws, as Goncalves intended. Latest reports indicate that eight have now been released and Goncalves appears to have lost a second round.

Another issue dividing the cabinet is Goncalves' recent gestures toward Portuguese Communist Party leader Alvaro Cunhal and the Communist-dominated Portuguese Democratic Move-

ment. Although Goncalves did not consult his cabinet prior to ordering the arrests of the businessmen, there is some suspicion that he may have alerted the left. The Democratic Movement is known to have distributed leaflets condemning the businessmen almost simultaneously with the official announcement of the arrests. Goncalves has also reportedly rejected the draft press law at Cunhal's request. The law, which was expected to be completed nearly three months ago, is intended to curb abuses of freedom of the press and would presumably cut back Communist control in this area. Moreover, there are reports that Goncalves yielded to Cunhal's demand that the universities, plagued by violent conflicts between Communist and Maoist student groups, remain closed.

Goncalves may also be losing ground in the continuing dispute within the Armed Forces Movement over the role of the military in the coming constituent assembly. The Movement's program promises that the military will withdraw from politics after the national assembly is elected, but it does not comment on the military role in the constituent assembly. The Movement has been divided over this issue for several weeks.

President Costa Gomes declared last week that he was "personally hostile" to the Movement's participation in the assembly. This view was supported by Movement leaders Vitor Alves and Otelo de Carvalho, military commander of the Lisbon region and deputy head of internal security forces. Goncalves has not expressed his views, but his continued silence suggests he may be with the minority favoring active participation, which also includes the Communist Party and the Democratic Movement.

Costa Gomes is reported to have acted as conciliator in these disputes, a role he has assumed several times since the April coup. His efforts are probably aimed at reducing friction within the government and preventing the resignation of Goncalves and other major officials in the months leading up to the elections next spring.

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## EC: THE DUBLIN PRESIDENCY

On January 1, the Irish begin their first six-month tour in the presidency of the EC. The task involves chairing the EC's Council and subsidiary bodies as well as the various committees that are part of the EC Nine's system of foreign policy consultation—known, somewhat grandly, as political cooperation. The Irish Republic's restricted experience in world affairs creates uncertainties about how Dublin will try to influence debate on "European" foreign policy. An additional concern is Ireland's limited diplomatic resources and how Dublin will cope with the work load that goes with the presidency.

The present government attaches more importance to foreign affairs than its predecessor, and the EC has become the focus of Irish foreign policy. Ireland's earlier concentration on US ties as a source of help toward political independence has been succeeded by reliance on the EC connection, in part as a way to lessen Ireland's economic dependence on Britain. The shift in Irish diplomatic interest was dramatized when the Cosgrave government came to power in early 1973, shortly after Ireland's accession to the community. The country's most able diplomats were sent to the major European posts while J. Molloy, the non-political assistant secretary in charge of administration, was sent to Washington.

Basic points of Irish foreign policy are opposition to communism and colonialism, insistence on staying out of military alliances, a longstanding Francophile bias, and a pragmatic determination to avoid contravening basic British interests. But Garret FitzGerald, the brilliant and irrepressible foreign minister, has made some innovations in policy since the National Coalition came to power in Dublin 21 months ago: a new emphasis on supranationalism in Brussels; expansion of Foreign Ministry horizons to take account of the EC's worldwide interests; a new sense of responsibility toward the developing countries; and a willingness to differ with the French position on some issues.

The EC presidency has become more demanding with each succeeding term, and the

Irish are certain to have their hands full in the months ahead. They have been beefing up staffs in Dublin and accrediting diplomats in new posts, notably in Cairo and Tel Aviv. Italy is already planning to help Dublin fill gaps in its overseas representation and will act as spokesman for the Nine in NATO. Other EC countries—particularly France—may offer various kinds of support. Only so much can be done along these lines, however, and to some extent, help from an EC partner will also give that partner influence over Irish policies and positions. In any event, Dublin will be extremely sensitive to the attitudes of the other EC members and of Washington toward Irish efforts to fill the presidency—particularly with respect to how the office is used in consultations between the US and the EC.

The Irish favor using the presidency as the principal channel for US-EC consultations. They are aware that Ireland is the first of the small EC countries to hold the presidency since the acrimonious US-European debate about the importance of mutual consultations gave birth last spring to the "Gymnich solution." It provided that the Nine keep Washington informed through the EC presidency except on topics barred by the veto of one or more members, although bilateral communications are also expected to occur. The Irish hope that the US will, in effect, bolster the EC presidency by using it during Dublin's tenure to inform the EC on matters of mutual concern as well as considering it a source for information25X6

## SECURITY CONFERENCE ADJOURNS

The Conference on Security and Cooperation in Europe recessed on December 20. The pace of activity in Geneva quickened somewhat during the latter part of this round of negotiations, and the participants from 35 states were able to reach agreement on the texts of several conference documents. Although many delegates are now speculating that this stage of the security conference might end next spring, several sensitive issues must still be faced when work resumes on January 20.

Despite the generally glacial movement in Geneva, the conferees were able to reach agreement recently on several texts designed to facilitate the "freer movement of people and ideas." For example, after more than eight months of negotiations, the conference finally agreed on a paper concerning the reunification of divided families. Agreement was also reached on texts concerning marriages between nationals of different states and the study of foreign languages.

The conference still has not reached agreement on the wording of the preamble to the "human contacts" documents. The Soviets, concerned about the domestic impact, wish to minimize such contacts and have sought language that would in effect give Moscow the right to disregard any agreements on this issue. Although the French and Soviets recently worked out a compromise, it was not accepted by the other delegations because the French and Soviets both made tactical errors in seeking to line up supporters and because they refused to accept any changes in their draft.

The conference must also resolve major differences concerning the military-related "confidence-building measures" and the wording of documents related to principles that govern relations among the participants.

Although these and other problems remain to be solved, many of the delegates in Geneva believe that they may conclude their work by next spring. This optimism stems from the fact that there has been limited progress; from the belief that the French are now taking a more positive attitude toward CSCE; and from the

assumption that the Soviets will show more flexibility. Many compromises will have to be negotiated during the next session, however, and the Western participants, in particular, will have some hard political decisions to make on how much they are willing to concede in order to foster detente.

With the end of the negotiating phase in sight, however, much attention is now focusing on arrangements for follow-up procedures. The Soviets will be attempting to institutionalize as much as possible in the way of pan-European arrangements, while the West may be divided on how stern a test of "good faith" to apply before agreeing to regularize security and cooperation arrangements.

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## European Communists ANOTHER MEETING

The three-day preliminary meeting of European Communist parties, which ended December 21 in Budapest, made further progress toward arranging a formal European party conference and apparently avoided most divisive subjects.

A highlight of the session was the particularly strong defense of detente by Boris Ponomarev, CPSU Central Committee secretary in charge of relations with nonruling parties. According to the US embassy, Ponomarev tackled head-on the arguments of some Western Communists who believe that Moscow's policy of detente is sacrificing their interests. He implied that Soviet pursuit of detente takes precedence over the aspirations of the Western Communist parties and that these parties should therefore refrain from taking advantage of the West's economic distress.

Ponomarev's remarks were probably distasteful to those Western Communist parties that are anxious to participate in government and hope the West's economic troubles will improve their prospects. The brief communique issued at the end of the session stated only that the participants in the meeting "set forth their parties' viewpoints," indicating a lack of unanimity.

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Ponomarev (r) addressing Communist meeting

Sergio Segre, head of the Italian party's international section, said the participants had followed a "gentleman's agreement" to avoid controversial issues, such as China, that were not on the agenda. The Romanian delegate, however, reiterated his party's position that the European conference should not criticize or censure other parties. He also was less enthusiastic about detente than the Soviets. Ponomarev seemed to reserve the right to criticize China in the future by saying that the conference should struggle against foes of detente "wherever they are found."

The Yugoslavs and Romanians strongly reasserted their independent stance at the meeting. Belgrade flatly "demanded" that the meeting recognize the sovereign equality of all participants and that it declare itself against the use or threat of force and for nonintervention in the internal affairs of others. The Romanians may also have raised some eyebrows in the Kremlin by saying that the conference must mobilize not only the workers, but "the middle class," the intelligentsia, and the most diverse circles of public opinion behind the struggle for peace.

The 28 parties represented at the meeting agreed to set up a drafting committee to prepare documents for the European conference and also to hold seminars on substantive issues raised at Budapest. Another preliminary meeting to consider these draft documents may be held before the actual conference takes place.

No date has been set for the conference, which will be held in East Berlin. The Soviets apparently want to wait until after the European security conference, which is not likely to end before next spring at the earliest. The Budapest meeting issued another call for an early conclusion of the security conference.

The communique makes no mention of a world communist conference, one of the potentially disruptive questions that the meeting may have intentionally avoided. Presumably, however, the Soviets are still interested in using the European conference as a stepping-stone toward a world gathering.

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## MEXICO: PRESIDENTIAL SUCCESSION

The "uncovering" of the Institutional Revolutionary Party's choice for president of Mexico in the election scheduled for July 1976 is slightly less than a year away, but the guessing game is already in full swing. The person picked by the party is certain of election. President Echeverria cannot run again, since Mexico's presidents are limited to a single term.

At this early point, the front-runner is Secretary of Government Mario Moya Palencia. Moya, 41, is the choice of the private business sector, which believes he would head a more conservative administration in which the investment climate would be more favorable than it is under Echeverria. His chances are buoyed by the fact that the Ministry of Government is a well-traveled route to the presidency. Four recent presidents, including Echeverria, have come directly from service at the head of this ministry.

Moya's chief competitor is Treasury Secretary Jose Lopez Portillo, 54, a close friend of Echeverria's since the two were schoolmates in the early 1940s at the National Autonomous University of Mexico. Lopez, a moderate, is in step with Echeverria's ideas on development priorities and would probably continue the current emphasis on the social aspects of economic development.

On the left of the political spectrum is Labor Secretary Porfirio Munoz Ledo, 41, a trusted adviser of the President who is said to have strong influence on Echeverria's foreign policy initiatives. He reportedly wrote the speech Echeverria gave before the US Congress in June 1972 in which he scolded Washington for failing to solve "minor" problems with its friends. Munoz is also said to be a principal author of the recently approved UN Charter of Economic Rights and Duties of States. His chances of becoming president hinge on the backing of conservative interests, including the organized labor movement, which he currently does not seem to have.

Apart from these three possible choices, there are a few dark horses who could con-



**Mario Moya Palencia**  
*Presidential front-runner*

ceivably win the nomination if the front-runners prove too controversial. Secretary of the Presidency Hugo Cervantes del Rio would be a likely compromise candidate.

Premature political maneuvering by presidential aspirants or by their supporters is usually frowned on. This time, Echeverria, perhaps knowing he could not prevent it, has given the green light to public discussion of the succession. He is being careful to treat each bidder equally, however, so that a successor is not picked too soon. This would cause ambitious politicians to circumvent the President in order to endear themselves to the chosen candidate and, in effect, make Echeverria a lame duck.

The party will officially reveal the successor next fall after a mysterious process that has puzzled political observers for years. The incumbent is doubtless the chief arbiter in the decision, but it is not clear to what extent he must weigh and adhere to the opinions of other politicians and interest groups.

Some observers believe the party applies the "pendulum theory" to pick presidential successors. This involves shifting every six years between left and right, or as some Mexicans describe it, between "innovators" and "consolidators." Echeverria could be called an "innovator." Among the current favorites, "consolidator" best fits Mo'va. [REDACTED]

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## PERU: STRAINS IN US RELATIONS

Peru's sharp criticism of the US during the past week was occasioned by Washington's disposition of compensation funds paid to the US government. Although the criticism was largely a result of domestic political sensitivities in Peru, recent events suggest that strains in relations with Washington may increase in the coming weeks.

The immediate cause of Peru's concern is that Exxon received a portion of the \$76-million compensation agreement signed in Lima last February. The International Petroleum Company—a Canadian subsidiary of Exxon—was nationalized by the Peruvian military regime after taking power in October 1968. It was the previous civilian government's handling of the case that provided the immediate impetus for the military intervention, and the regime has maintained consistently since then that the oil company is entitled to no compensation.

The agreement signed in February settled all investment disputes between Peru and the US, but, as noted in the final document, the so-called International Petroleum case was not considered to be a part of the negotiations. At the same time, however, both sides agreed that the US would

decide unilaterally on how to distribute the money.

In an effort to ward off any embarrassment that might result from news that International Petroleum was receiving compensation, the Peruvian government publicized its position on the matter even before the decision to distribute the money was made public here. In addition, there appears to be a genuine concern that, since the case had been officially "closed," the US broke the spirit, if not the letter, of the February accord. At a minimum, Peruvian officials maintain that the US had an obligation to hold off distributing the fund until other unsettling events in Peru subsided. Specifically, these officials have in mind the furor over a recent loan agreement with Japan and continuing allegations that the US is committed to "destabilizing" the Velasco regime. Postponing the distribution would not necessarily have made Lima's response less acrimonious, however, since Peruvian leaders feel that Washington has been less than forthcoming on other bilateral issues such as trade concessions, aid, arms sales, and inter-American diplomatic affairs.

While the regime's maneuvering on the current flap will probably deflect most criticism, some more radical government leaders may take the opportunity to sow further discord between the US and Peru by pressing President Velasco on other divisive bilateral issues. Velasco may now be more receptive to anti-US moves as one method of boosting his sagging popularity at home.

For example, after the initial publicity last week, the Peruvian mines minister publicly implied that the large, US-owned Marcona Mining Company is being actively considered for expropriation. While the take-over of Marcona reportedly has been a topic of cabinet discussion for some time, officials who favor such a move may now feel more secure to press Velasco to support their position. Some Peruvian leaders may also be less willing to compromise on other bilateral economic concerns and less willing to accept what they view as unsatisfactory responses to their arms requests. [REDACTED]

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## GUYANA: TOWARD A ONE-PARTY STATE

Prime Minister Forbes Burnham has announced plans that would transform Guyana from a parliamentary democracy into a one-party socialist state.

Burnham carefully staged a massive rally last week to mark the 10th anniversary of the governing People's National Congress. At the rally, he said that a new constitution suited to the needs of Guyana will be drafted next year to replace the present one, which he described as "a replica of the ethics and ideology of former colonial masters." Burnham left little doubt about the trend of things to come when he stated that "the party comes before the government—which is inferior to the party."

Capitalizing on the widespread fraud that marked the 1973 general election and provided his party with a two-thirds majority in the parliament, Burnham has since reduced to impotence whatever opposition remained. In the past year and a half, the Prime Minister has virtually eliminated press freedom, at first through libel suits and restrictions on importation of newsprint and machinery, later by forcing outspoken newspapermen to leave their jobs, and finally this past autumn by purchasing the *Guyana Graphic*, the country's major independent newspaper. He has politicized the civil service by basing appointments on party loyalty. Finally, he has undermined labor's traditional independence and has exploited its numerous internal rivalries. In a recent statement to the press, Labor Minister Carrington suggested that labor unions might now be unnecessary and, in fact, irrelevant in the new socialist Guyanese society being created since "they were established in circumstances of colonial suppression and exploitation."

Even the churches have not been immune from government pressure, and the Roman and Anglican communities may be Burnham's next targets. [redacted] Burnham reacted strongly to recent criticism of government

control of the media by the Roman Catholic bishop of Georgetown and a high ranking Anglican cleric. Burnham reportedly warned his critics that the government had at its disposal "a number of techniques" for penalizing those with "unconstructive comments."

To prepare the party for its paramount role in the "cooperative socialist" society, Burnham has outlined a rigorous code of conduct for party leaders to contend with the indiscipline, venality, and corruption that he finds within the party and the government. He has promised "to purge" those who put personal advancement above the party and has ordered a tightening of membership requirements and the building up of a cadre of disciplined, committed socialist leaders.

He also has plans to implement legislation in the coming year to:

- take over all private lands not in productive use;
- assume control of all foreign trade;
- nationalize the Reynolds Guyana Mines facilities on January 1, 1975;
- abolish fees at Guyana's only university;
- institute compulsory courses on cooperative socialism in the schools.

Although Burnham's announced plans are certain to arouse the fears of the majority East Indian population that the measures are intended to ensure the complete political dominance of his minority black-based party, the East Indians do not possess the leadership or the inclination to challenge him. Even Cheddi Jagan, the leader of the East Indians and former prime minister during British rule, is apathetic and isolated and apparently lacks the will to take on Burnham. [redacted]

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## INDIA: DEMOCRACY UNDER PRESSURE

Despite periodic, widespread unrest brought on by seemingly hopeless economic difficulties and by tensions among the country's diverse regions and cultures, India's democratic institutions have held together since independence in 1947. Most fundamental rights still seem safe, but a bitter controversy is developing between Prime Minister Gandhi and her opponents over the government's use of special powers to contain opposition activities.

The Prime Minister's opponents are incensed by the government's refusal to revoke the "state of emergency," in effect since the war with Pakistan in December 1971. Despite the considerable progress in resolving the many problems with Pakistan, the emergency has been extended indefinitely. Formal proclamation of an "emergency" gives the government expanded powers to censor publications, to ban strikes, and to make "preventive" arrests. Under this preventive detention, arrested persons may be jailed up to two years before gaining access to the courts.

Opposition groups charge the government is using such powers to muzzle critics and to cover up corruption. They also say there is a threat of press control. The recent dismissal of the editor of one of India's leading independent dailies, *The Hindustan Times*, is attributed to his persistent editorial criticism of government policies, capped by his condemnation of India's virtual take-over last September of the Himalayan protectorate of Sikkim.

The government is reluctant to give up its extraordinary powers, which the drafters of the constitution intended only for use in "grave" national emergencies. According to Mrs. Gandhi, the upswing in internal disturbances is a serious threat to national security. In the past year, frequent outbreaks of civil strife have occurred during strikes and demonstrations to protest food shortages, rising prices, and corruption in public office. This has resulted in several hundreds killed and thousands injured or arrested.



### Power Used With Moderation

To contain the unrest, Mrs. Gandhi has made increasing use of the various paramilitary forces that have been formed to assist local police. These mobile, armed gendarmerie are stationed in all but 6 of the 21 states. About 8,000 are on duty in Bihar, the northeastern state of 60 million, where discontent is especially high. Damage to government property, a prime target of dissenters, has led to increasing reliance on the industrial and railway security forces.

Abuses, including an unknown number of political arrests, have probably occurred, but there appears to be no basis for believing that New Delhi has routinely resorted to imprisonment for political dissent. Political "trouble-makers" are frequently expelled from disturbed states rather than jailed. The Unlawful Activities Act does permit the arrest of members of banned political parties, but the government has rarely outlawed a political organization. Even the most extreme of India's communist parties, which led a terrorist upheaval in West Bengal in the late 1960s and again shows signs of resurgent terrorism has

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not been banned. A number of radical religious and separatist parties are also permitted to operate.

The opposition's unhappiness with the "emergency" increased last September when New Delhi added smugglers to those subject to arrest under "preventive detention." The opposition opposed expanding the list of potential detainees on such grounds. Nevertheless, hundreds were seized in a crackdown on the massive smuggling traffic to the Persian Gulf, which is estimated to cost India hundreds of millions of dollars in foreign exchange annually. When legal loopholes enabled key suspects to obtain release, the government denied smugglers access to the courts. The Congress Party majority in parliament enabled Mrs. Gandhi to secure easy passage of the controversial legislation.

Opposition parties brand the move draconian and accuse Mrs. Gandhi of fascist aspirations. Some charge she wants to prevent smugglers from revealing in court their links with leading Congress politicians and illegal campaign contributions of "black money" (that on which some tax has not been paid) to operate Congress' electoral machine.

#### A Conglomerate Opposition

Mrs. Gandhi's most formidable challenger since she came to power in 1966, J. P. Narayan, warns that the country is moving toward dictatorship. Narayan's nine-month-old campaign to "restore" democracy and to rid the government of corrupt politicians and practices, beginning in his home state of Bihar, continues to gain momentum. Mrs. Gandhi probably does not expect that the 72-year-old pacifist and disciple of Mahatma Gandhi will be able to challenge the predominant Congress Party on a national scale, but at the same time she recognizes that he is stimulating increasing dissatisfaction with Congress Party policies.

Mrs. Gandhi is unable to attack Narayan directly because he is revered by the Indian public, including many Congress Party members. Attempts to reach an understanding have failed because the Prime Minister refuses to comply with his demand that the Congress government in Bihar be dissolved.

A call by Mrs. Gandhi for elections early next spring—a year before required—would indicate she feels threatened by Narayan's supporters, a conglomerate of opposition parties and student groups. They have formed a front aimed at breaking the present large Congress majority in parliament. Narayan has reluctantly agreed to cooperate, but it is too early to tell whether the front will hold together outside of Bihar. Early elections would catch them unprepared.

#### Tensions Likely to Persist

India's gloomy economic outlook ensures that the government will continue to face internal discontent. Civilian security forces, rather than the military, will play the key role in controlling the 600 million population. Senior army officers have made clear their opposition to performing police functions.

Considering all the resources available to the Congress government, opposition forces will have an uphill fight. Narayan's participation makes the challenge unique, but opposition groups have not stayed together long enough in the past to threaten the Congress Party seriously.

The government's use of force and repressive legislation could enhance the prospects of Narayan's reform movement. So far, however, New Delhi appears to have used the extraordinary powers available to it with sufficient restraint. The recent stinging criticism of government policies in the legislature and in the press indicates that freedom of expression, at least, still prevails.

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## ETHIOPIA: SOCIALISM ADOPTED

The provisional military government apparently feels secure enough now to turn to Ethiopia's formidable problems. On December 20, the ruling military council broadcast a long statement of its new socialist philosophy, and on the following day it organized a large rally, under tight security, to inaugurate the long-promised rural development campaign.

The announcement of the adoption of "socialism" is a formalization of social and economic views that appear to have been held all along by many members of the council. The policy statement of December 20 is, however, a general statement of intentions and not an outline of specific programs. There will be much debate—and delay—before the military can come up with specifics. Even then, the task of implementation will place heavy burdens on the military council and the bureaucracy.

The adoption of "Ethiopian socialism" is an attempt by the provisional government to identify with the aspirations of Ethiopians for improved living standards and to give the appearance of a coherent ideological foundation for the changes the council is promoting in Ethiopian society. The council has been criticized for its failure to move the revolution along. It hopes that its avowal of socialism will place Ethiopia in the mainstream of African thinking and help emphasize the government's sharp break with the feudal regime of Haile Selassie.

In its announcement, the government stressed its intention to introduce a uniquely Ethiopian brand of socialism, as well as the importance of the local community as the basis for social order. This tends to parallel the philosophy of the Tanzanian government, and an Ethiopian military delegation arrived in Dar es Salaam on December 20 for the purpose of studying that country's program for uprooting the rural population and relocating them in socialist villages.

In addition to outlining its goals, the provisional military government announced that a



An Ethiopian village, from a painting by Afework Tekle

single "progressive" national political party will be organized. The council may establish a rudimentary party in Addis Ababa and in military camps around the country, but any attempt to create a national party will run into problems caused by the country's religious, ethnic, and geographic diversity.

The adoption of socialism does not seem to presage a sudden shift in foreign policy, despite the strong emphasis now being given to the elimination of foreign influences on Ethiopian culture and internal affairs. Several high-ranking officials, including the defense minister and a high official of the Ministry of Foreign Affairs, have reassured US officials that the military council continues to

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value US friendship as well as US military and economic assistance.

On December 21, the government began the Development Through Cooperation Program, which involves sending 60,000 students, including 15,000 women, to the countryside. In a speech to 20,000 students at the kick-off rally, General Teferi Benti, the head of government, summarized the program's objectives—literacy training, the indoctrination of the rural population in the objectives of the Ethiopian revolution, and preparing the peasants for land reform, promised for sometime in the future.

Students and parents are apprehensive about the rural development program. Some students argue that land reform should come first, maintaining that as long as the landlords hold their land and retain their power they could influence the peasants to take violent action against the students. Moreover, the military council has not yet inducted students in the rebellious province of Eritrea into the program, and probably will not dare send them to the Eritrean countryside.

The military council, which at present appears to be unchallenged in the capital, is faced with a worsening security situation in Eritrea, despite sending army reinforcements there two weeks ago. Last weekend, there were incidents in Asmara, the provincial capital, involving shootings and two attacks on crowded cafes by Eritrean Liberation Front terrorists. Seven people were killed and 30 wounded in the attacks. The army's countermeasures resulted in some civilian deaths, which increased the hostility of Asmara's population and of the predominantly Eritrean paramilitary police. [redacted]

## IRANIAN SAMs DOWN IRAQI AIRCRAFT

Iranian air defense units operating in north-eastern Iraq downed two Iraqi aircraft on December 14 and 15. One aircraft—a TU-16 medium bomber—was destroyed by a surface-to-air missile; the other was hit by antiaircraft fire.

Baghdad radio announced the shootdowns, claiming both aircraft were hit by American-made Hawk missiles fired by Iranian units operating in Iraqi Kurdistan. The Iranians do not have any operational Hawk missiles, but they do have two units equipped with British-made Rapier surface-to-air missiles in the area of the shootdown. In addition to the Rapier units, Tehran has had several antiaircraft batteries operating in Iraq since midsummer.

Since hostilities against the Kurds resumed some nine months ago, Baghdad has lost more than 40 aircraft, mostly to Kurdish antiaircraft fire. This is about 10 percent of Iraq's aircraft and helicopter force.

Baghdad's announcement probably is aimed at focusing public attention on Iran's increasing involvement in the Kurdish rebellion. There is little Iraq can do, however, to force Iranian disengagement. The Iraqis now have over 80 percent of their ground forces tied down fighting the Kurds and are likely to limit any retaliation to cross-border shelling or air strikes against Iranian villages near the border.

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The limited Iraqi options, and Baghdad's meager response to the aircraft losses, probably has encouraged the Shah to increase Iranian intervention. He recently authorized Iranian aircraft, patrolling the border, to carry out tactical missions in support of Iranian units in Iraq. US defense attache sources report that Iranian aircraft are also to attack Iraqi planes operating inside Iraq within ten miles of the border. In [redacted]

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The pattern of increasing Iranian participation since midsummer indicates that the Shah is willing to take greater political and military risks to keep the rebellion going. At this point, however, he is probably unwilling to risk a general war with Iraq or the direct commitment of Iranian infantry units to the Kurdish cause. [redacted]

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